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SUBJECT: FOUR CG TOUR OF THE DELTA HIGHLIGHTS ECONOMIC GROWTH AND
DEVELOPMENT CHALLENGES

REF: HCMC 665

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1. (SBU) SUMMARY: A joint trip undertaken by the Consuls General of Australia, India, Kuwait and the USA to the Mekong Delta provinces of Can Tho, Hau Giang and An Giang provided a host of opportunities to share experiences, gain insights from colleagues, forge new connections and reinforce key shared messages on the need for continued reform in the economic sphere and tolerance in the social and religious spheres. While the trip focused on many opportunities for cooperation and development in the Delta region, it also highlighted the many challenges the provinces face, from a crippling lack of transportation infrastructure to local Communist Party and security officials who are clearly not comfortable with the scope and pace of change underway. END SUMMARY.

CAN THO: THE FISH ARE JUMPING AND THE RIVER IS HIGH

2. (SBU) A call on the Mekong Delta Rice Research Institute in Can Tho showcased history as well as agricultural science. Founded in 1977 as a gift to Vietnam from India, the institute began its life as an expression of support for the anti-imperialist movement and focused on self-sufficiency and import-substitution goals that were so important for many non-aligned movement member states in the 1970's. Over the years, however, the institute changed along with the situations in both Vietnam and India. While a large percentage of staff still owe their early academic training to GOI-sponsored programs that continue to send 2 - 3 researchers to India per year for advanced degrees, the USA is now number one source of foreign support for the institute with both the Rockefeller Foundation and the Gates Foundation supporting programs to introduce more efficient and nutritious "golden rice" to SE Asia. Thanks to a Gates Foundation Grant, the Mekong Delta Rice Research Institute became the first in the world produce an Indica (tropical) variety of the genetically modified "golden rice" that combines DNA from rice and soybean plants. (Note: The initial "golden rice" was produced using Japonica rice, which is the base of most strains grown in temperate climates. End Note.)

3 (SBU) Mission Vietnam has cooperated closely with the Mekong Delta Rice Institute on programs and seminars to increase understanding of GMOs in Vietnam. Institute Vice Director Duong Van Chin was pleased to inform the CG that they have now received permission for controlled open-field plantings of

golden rice as well as genetically modified soybeans with increased pest protection. Until now, all plantings have been done in tightly-controlled, double-isolated greenhouses consisting of smaller greenhouses isolated inside of larger ones. The Kuwaiti CG used the visit to deliver a sample of the Basmati rice preferred by Kuwaiti consumers as he established contacts to work on introducing the strain in Vietnam.

¶4. (SBU) A call on faculty of the DRAGON Climate Change Research Institute at Can Tho University also showcased how a program initiated by one country can attract broader support. Established in 2008 as a product of the June US-Vietnam summit in that year, DRAGON owes its existence to the USG -- the State Department and the US Geological Survey. Now, however, the Australian Consulate and AusAID have become very involved in the project as Australia's commitment to working with ASEAN nations on climate change has grown along with the large number of Australian-trained environmental scientists at Can Tho University. The Australian Consulate co-sponsored the Climate Change Conference held there earlier this year (ref A) and AusAID is finalizing plans that will channel roughly A\$1.3 million to research projects being undertaken by Vietnamese scientists at DRAGON.

¶5. (SBU) A visit to the Hiep Thanh rice and seafood group in Can Tho was interesting on several fronts. While Hiep Thanh continues to produce 60% of its own fish ("basa" pangasius), the firm has expanded operations by developing a system of independent growers. To maintain quality, however, all contract growers are required to raise only Hiep Thanh-supplied stock using Hiep Thanh-supplied feeds. Each contract grower is required to keep meticulous, daily records of water quality, feed dispensed, weather conditions, average fish size, any

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problems noted and other factors in order to meet the strict WHO and ISO standards to which Hiep Thanh adheres. While Hiep Thanh's largest market remains the Scandinavian countries where consumers are willing to pay premium prices for high-quality fish, Hiep Thanh President Nguyen Van Than expressed concern regarding the pending decision on catfish regulation in the USA since it has the potential of impacting between 10 and 20 percent of his firm's sales.

¶6. (SBU) The most interesting revelation at Hiep Thanh concerned the firm's rice business; a 2008 change in export controls on rice has greatly reduced Hiep Thanh's ability to export directly. As part of a package of measures ostensibly designed to ensure food security and price stability, after the 2008 rice price shock the GVN ruled that no private rice broker can sell rice to any country with which the GVN has negotiated a government-to-government rice deal. The change has hit Hiep Thanh hard for two reasons. First, prior to the change Hiep Thanh often sold additional rice to countries that used a government-to-government agreement with the GVN in order to ensure basic supplies. The Philippines, for example, have long been Vietnam's largest rice buyer and have traditionally made large government-to-government rice purchases that the GVN routed through VinaFoods2, the giant southern rice SOE. In the past, however, buyers in the Philippines were able to buy additional rice directly from private dealers, a right they used when market prices dipped below the government contract price. Now, however, no one in Vietnam other than VinaFoods2 is allowed to sell rice to anyone in the Philippines. Other large government-to-government buyers, including the Governments of Iraq and Iran, fall under the same SOE-monopolized regime.

¶7. (SBU) The second source of Hiep Thanh's difficulties arose in

2009, when VinaFoods2 and its northern counterpart VinaFoods1, went on an extensive campaign of converting existing commercial contracts with even minor buyers into official government-to-government contracts, thus closing those markets to all private Vietnamese rice dealers. As a result of this 1-2 punch, Hiep Thanh is now only able to sell 15% of its rice output directly to overseas buyers (primarily in Africa). Hiep Thanh must sell the remaining 85% to either VinaFoods1 or VinaFoods2, which direct Hiep Thanh to ship it to their captive foreign clients while the SOEs reap the majority of the profit. Despite these restrictions, Hiep Thanh's rice processing operations continue to grow. Because its operations are more efficient than those of the big SOEs, Hiep Thanh can still eke out a small profit serving essentially as a de facto subcontractor to one of the two large SOEs.

HAU GIANG : MIXED PICTURE OF POVERTY AND GROWTH

18. (SBU) Hau Giang's People's Committee Chairman Huynh Minh Chac, a retired Vietnamese Army General who saw combat duty in Cambodia, was not bashful in describing the many problems his impoverished province faces. When the "special city" of Can Tho City and its environs were split off in 2004, Hau Giang became the undeveloped, impoverished "leftover" province. Lacking in roads, schools, water and electricity, Hau Giang is struggling to develop. During a wide-ranging meeting with the four Consuls General, PC Chair Chac reinforced CG's earlier impression as a dedicated, no-nonsense administrator determined to get the job done. While Hau Giang ranked 13th in the overall 2009 Provincial Competitive Index (a USAID-supported ranking of the business environment in all 63 of Vietnam's provinces), it ranked 3rd highest on the sub-indicator on "quality of local administration." The province's overall ranking was pulled down by its bottom-tier performance on "quality of workforce," a reflection of the lack of education in the province. While still very poor with per capita income roughly 25% below the Vietnam average of about US\$1,000 per year, the province is growing rapidly and even recorded 12.6% GDP growth in 2009. Chairman Chac presented each CG with a package that included abstracts of investment proposals broken down into categories for ODA-supported projects, commercial FDI projects and charity projects, listing counterparts, projected budgets, target populations and other data for each.

19. (SBU) A visit to one of Hau Giang's largest enterprises, the
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Can Tho Sugar Company (CASUCO), served to underscore the complexity of the province's development challenges. Founded in 1995 as the monopoly state-owned sugar company when Can Tho and Hau Giang were still one province, the company still retains its "Can Tho" name. Though the firm was equitized (legally converted to a joint stock company) in 2005, the GVN continues to hold the majority of the shares and the firm's deputy director, with her heavy Hanoi accent and apparent lack of any knowledge of the sugar industry, left the impression that she was a political appointee. In response to a question from the Australian CG about the source of sugar cane, for example, she replied that CASUCO is the state sugar company of Hau Giang and thus sources all of its sugar cane from Hau Giang farmers, who must sell to the firm.

110. (SBU) After the formal meeting, however, the firm's business manager explained that the system of monopsony buying had ended several years ago and that today the firm sources sugar cane from numerous provinces. Rather than being required to sell only to CASUCO, Hau Giang's sugar growers (as well as those in other provinces) have the option of selling to any buyer. He

added that CASUCO, like most other Vietnamese sugar companies, still buys directly from a number of local farmers but now sources a majority of its sugar cane from brokers who travel to thousands of individual small farms (generally 2 to 4 acres) spread across the Mekong Delta and Central Coast regions in order to assemble large lots of cane for sale to refiners. In this way, the determination of market prices for sugar cane has largely moved from a few provincial refiners to the much more numerous brokers who compete with one another to buy farmers' crops. Rather than being required to grow sugar cane, farmers now have a choice and most of the 2,000+ small sugar growers in Hau Giang grow rice and sugar cane in a crop rotation scheme. The stark contrast between the "old line" official response in the meeting and the market realities described by plant operators provided an interesting metaphor for the process of economic reform still underway across the Delta region.

AN GIANG: PROMOTING EDUCATION, FIGHTING TIP

¶11. (SBU) One of Vietnam's poorest provinces just a few years ago, An Giang's per capita GDP is now slightly above Vietnam's national average. The reasons are fairly obvious. Every CG with dealings in An Giang reported that the provincial government has been one of the least bureaucratic and most supportive in the Mekong Delta. The province has also made education its number one priority, as evinced by the impressive new campus of An Giang University the group of four CGs visited. Nearly half of the university's 7,000 students are in the faculty of education, thanks in part to an aggressive provincial campaign to recruit and train teachers from every village and hamlet in the province. Some of the bright, second-year students came from villages that could only be reached by canoe while even more had never seen a city before they arrived in An Giang's capital, Long Xuyen with a population of 275,000. Star students are recruited and provided with free tuition plus a stipend for agreeing to return to his/her home village to teach for at least five years following graduation. The four CGs spoke with one group of students in the English class, where they were studying "educational English," a combination of English language training and studies on teaching methodology and curriculum design.

¶12. (SBU) During a visit to the IOM assessment center for returned victims of trafficking, the four CGs heard both of the successes and challenges of combating trafficking in persons in Vietnam. The good news is that the assessment center in An Giang is working well, as is the NGO-supported "open house" that provides longer-term care, training and support to victims. Educational programs targeting high school students also appear to be having an impact by increasing awareness and reducing the number of victims from the province. The less cheery picture is that these advancements are largely limited to a few provinces like An Giang, where the provincial government actively supports anti-TIP training, assists returned victims and helps with their reintegration into the community. An Giang's leadership is having a magnet effect--IOM reported that a recent decision by the GVN to allow trafficking victims from other provinces to use the assessment center in An Giang. The center's director as well as a local Department of Labor, Invalids and Social Affairs

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(DoLISA) representative added that over the past several months, the central government in Hanoi has arranged for officials from several other provinces to visit An Giang to see how the province is making progress. The Kuwaiti Consul General (who is fairly new to Vietnam but who previously oversaw Kuwait's contributions to IOM in Geneva) astutely asked why the GVN is not more active in tackling broader forms of trafficking, including internal and labor trafficking. The IOM representative explained that IOM and others are beginning to

convince the GVN to address these issues, adding that the fundamental problem is that Vietnam still lacks comprehensive TIP legislation that meets international standards. He expressed hope that draft legislation will make it to the National Assembly in 2010.

MUSLIMS IN THE DELTA

¶13. (SBU) As An Giang boasts Vietnam's largest Muslim population -- roughly 14,000 members -- making a call on a mosque to visit with a Muslim community was a natural choice. The group visited the Ehsan mosque, which is moderately sized and serves about 200 families with a total of 1,200 members. Originally built in the 1930's, it was remodeled in 1997-8 with funds donated by Cham Muslims who had emigrated to the USA and Australia. Of the four CGs, only the Indian CG had visited the mosque before and he was warmly welcomed back. In response to a question from the Kuwaiti CG regarding the group's origins, the Muslim representative of the provincial religious council started to relate the general story of the Cham Kingdom that once ruled Central Vietnam until the mosque's elders began to contradict him. According to the Imam and his assistant, nearly all An Giang's Muslims are ethnic Cham who immigrated from Cambodia roughly 300 years ago as manual laborers hired to work on the extensive canal system that eventually transformed the Mekong Delta into Vietnam's rice bowl. As such, they are only indirectly (and rather distantly) connected to the Cham communities on Vietnam's Central Coast who can trace their roots in Vietnam to the Cham Kingdom which ruled the central part of Vietnam from roughly AD 400 to AD 1400. As with the province's other poor minorities, the GVN provides the Cham Muslims multiple special allowances, including free schooling and community support. Nonetheless, the community remains very insular and poor, with most members earning their living as small scale farmers. Mosque elders explained that only six people in the community actually spoke Arabic, although a few of the elders stated that they could read it but could not speak it. The six Arabic speakers were all fairly young and had received training overseas courtesy of foreign governments, including Malaysia, Indonesia, the United Arab Emirates and Saudi Arabia. The Kuwaiti CG expressed a strong interest in finding a way to provide training in Kuwait and to provide some other form of support for the mosque.

¶14. (SBU) Despite all of the positive developments in An Giang, the province remains in flux and thus full of contradictions. An Giang was the province that sparked an incident in 2007 when local MPS forcibly ejected a Consulate team from their hotel room late a night. At the same time the People's Committee has been courting international NGOs, we have also heard from some NGOs that the provincial Communist Party has been attempting to reign them in and may have even "denounced" some U.S. NGOs.

HEADING HOME ON THE HIGHWAY TO THE FUTURE

¶15. (SBU) Every Provincial Chairperson the group of CGs met expressed their plans and desires for more modern and efficient transportation links, including airports, super highways, bridges and high-speed trains. The situation is indeed grim and the lack of transportation infrastructure certainly represents one of the key barriers to development. While Can Tho, for example, is located only a little over one hundred miles from HCMC, the trip down took well over four hours. Reaching Hau Giang, which is just 30 miles to the west, takes an additional 90 minutes. The 150 mile trip from HCMC to the charming An Giang tourist and trading center of Chau Doc requires six to seven hours and three ferry crossings, two of which cannot accommodate trucks. The poor state of

transportation impacts every aspect of the economy. Farmers'

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incomes are negatively impacted by lack of quick access to the giant HCMC market for fresh fruits and vegetables. (In HCMC, most consumers still insist on buying only "picked today" produce and either live or freshly slaughtered fish and meats.) Industrial development is stymied on two fronts. First, almost no foreign investors are willing to make the arduous trek south and instead opt for close-in locations even though congestion and labor shortages are growing problems. Second, even the few investors who do travel south often decide that the relative advantages of available land and abundant local (rather than migrant) labor are not enough to outweigh the added logistical burden of a Mekong Delta location. But, their world is about to change.

¶16. (SBU) While the CGs were traveling, the new 62-kilometer long HCMC-Trung Luong freeway opened. This Western-style highway (four lanes, limited access, no pedestrians, motorbikes or pushcarts), is part of a planned highway linking HCMC and Can Tho. The opening of just this first section of the eventual highway cut one hour off the return trip to HCMC. At the end of March, the new Can Tho bridge will open to traffic, cutting an additional 30 minutes off the trip. Construction is underway on other segments of the highway, with a planned completion date of 2013, at which time the HCMC-Can Tho trip should take about an hour and 40 minutes. Additional road projects are under development to link Hau Giang into the highway. A separate western Mekong Delta highway will link the provinces of An Giang, Kien Giang and Dong Thap with the HCMC hub. The Can Tho airport, which currently runs flights only to Hanoi and Phu Quoc, is slated to become an international airport before the end of the year. Once these new links are open, the Mekong Delta provinces will face profound change and greatly expanded opportunities. Provinces that are forward looking enough to prepare through education, local administrative reforms, the development of local infrastructure, etc., will be poised for explosive growth.

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